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BY GUEST EDITOR HANNA MÄKINEN

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BALTIC RIM ECONOMIES

BRE REVIEW

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Guest Editor | Hanna Mäkinen

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EXPERT ARTICLES

GUY RYDER

Corporate Social Responsibility and decent work

Expert article • 1760

Corporate Social Responsibility has the stated aim of encouraging the positive contribution of business to socio economic development and reducing the risk of possible negative impact, including along the complex systems of global supply chains, thus becoming an intrinsic part of the way business does its business. This approach recognizes that enterprises have a responsibility to ensure that jobs are decent, workplaces are safe and inclusive, proper wages are being paid and workers have a voice to come up for their rights. At the same time genuine CSR seeks to encourage the positive impact of the private sector as a major player in society creating jobs that provide incomes and learning opportunities. To fully harness the potential of the private sector, the ILO was one of the first international organizations to adopt an instrument that introduces a social dimension to the forces shaping globalization, The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration). In the 1970s it was ahead of its time and today it is more relevant than ever to engage with business and achieve a fair globalization.

Many commentators agree that in order for markets to deliver generally shared benefits, governments need to assume their role in protecting rights and fostering development. This is of particular importance in the context of emerging markets experiencing rapid economic growth: to achieve inclusive development, governments need to put in place adequate legal frameworks and policies geared towards sustainable enterprise development. And national laws protecting workers' rights need to be enforced through national labour inspection systems.

Today's responsible businesses need a comprehensive rights-based approach responding to national development priorities.

However, maximizing the benefits of development goes beyond governments alone. Strong social dialogue platforms at the national and sectoral levels provide solid foundations for employers and workers to find sustainable solutions to often systemic issues and engage with the government on adequate legislation and policies. Enterprises themselves have also taken initiatives to address challenges in their operations through the formulation of policies in the areas of human resources, CSR, suppliers' codes of conduct, as well as programmes that look at identifying and possibly addressing compliance issues, especially in global supply chains. Many of these private policies reference ILO standards, especially the Fundamental Principles and Rights at Work, and the ILO operates a Helpdesk for Business on International Labour Standards.

The ILO runs a number of programmes that involves all these different actors (multinational enterprises, governments, employers and workers) to address workplace challenges especially in developing and emerging markets. These programmes focus on decent work challenges such as elimination of child labour and forced labour, improving working conditions and industrial relations, occupational safety and health, social security, gender equality.

But is this sufficient to ensure a fair globalization? The MNE Declaration brings a unique perspective as governments, employers and workers agreed that policies should not only aim to minimize and resolve difficulties to which operations of multinational enterprises may give rise in the countries of operations but also to encourage their positive contribution. In 2011 the EU defined CSR along these same lines as "the responsibility of enterprises for their impacts on society" underlying the responsibility of enterprises for their positive and negative impacts, in their own operations and in interaction with other actors. Today's world requires the active participation of businesses to find sustainable solutions to socio-economic challenges, including the high unemployment numbers, especially among young people and women.

The European Commission President recently launched the Investment Plan, a three-year initiative (2015-2017) that aims to leverage the contribution of the private sector to job creation and support skills development. The latter concept is important not only for Europe but all countries and at all development levels; clearly, adequate education and skills increase the ability to innovate and adopt new technologies. This stands to make the difference between "inclusive" growth providing opportunities for all lifting people out of poverty and purely "economic" growth that leaves large segments of the society behind and leads to inequality, another challenge in today's globalized world.

Over the next five years an estimated 213 million people will enter the labour market, and they will need jobs. Many companies are supporting efforts of governments to design and implement more effective policies to promote youth employment, including vocational training, apprenticeship and entrepreneurship programmes. The MNE Declaration advocates exactly such an engagement where enterprises, governments and workers address issues of mutual concern and identify how enterprises can make meaningful contributions to national development priorities.

Today's responsible businesses need a comprehensive rights-based approach responding to national development priorities. In concrete terms, it means that responsible and sustainable businesses obey laws and respect internationally agreed principles, and seek to contribute to national development priorities, as outlined in the five areas of the MNE Declaration (general policies, employment, training, conditions of work and life, and industrial relations). This is part of a fair globalization where all women and men can find decent and productive employment opportunities and children have access to education.

Expert article • 1760

The sustainable development goals being proposed for post-2015 include promoting “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”. Recognizing that enterprises hold the potential for more and better jobs, the private sector will be increasingly seen as a critical partner in reaching these new sustainable development goals. The MNE Declaration sets out the role of enterprises and government in fostering greater synergies between public and private action on decent work and inclusive growth while affirming the essential roles of employers' and workers' organizations.

I see the private sector as an important partner for the ILO to achieve decent work and address many of the developmental challenges our globalized world faces today. And the ILO stands ready to engage with the private sector. ■

GUY RYDER
Director General
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JUHA VÄÄTÄNEN

How to make the world a better place?

Expert article • 1761

The beginning of the 21st century was marked by the United Nations Millennium Declaration which spelled out the societal challenges in an increasingly globalized world. It stipulated that every individual has the right to dignity, freedom, equality and a basic standard of living - regardless of where he or she has been born or lives. The declaration involved a global call to all actors to combat poverty and reinforce health care, to promote human rights and encourage tolerance and solidarity as well as, to improve the protection of the natural environment and strive for sustainable economic development. A set of eight clear targets – the millennium development goals (or MDGs) were set and corporations were invited to be partners of government bodies in efforts to attain them. How far have we come? And what has been the role of multinational enterprises (MNEs) in this exercise? How can we improve the impact of this collaboration?

The globalization, advancements in information technology and supply chain as well as the fall of various trade and investment barriers have led to an increase in foreign direct investment (FDI) activities of Multinational Enterprises (MNEs). The flow of FDI has particularly increased into developing countries and has surpassed the FDI inflows into developed countries.

> MNEmerge is EU FP7-Project to promote the UN Millennium Development Goals in Brazil, Ghana and India.

In principle MNEs are assumed to contribute local economic development through their FDIs. Indeed, FDI by MNEs is viewed in a favourable light by policy makers in developing countries who vie to woo them through attractive offers. This has stimulated research on the processes by which FDI impacts economic and market evolution in developing countries. FDI has been examined from a broad spectrum of angles, with focus on the ways through which benefits of FDI may manifest themselves, via linkages with local organizations and resultant spillovers. The formation of linkages is thus considered the main mechanism by which multinationals can produce positive externalities benefiting the host country and socio-economic development.

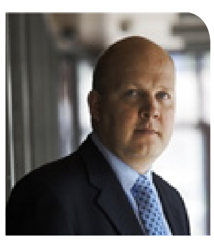
Poverty reduction has been at the centre of concern regarding development. While the traditional poverty reduction methods such as aid still play an important role, recent frontiers of development research have argued economic growth as a fundamental mechanism for poverty reduction in low income countries. The direct and indirect effects of economic growth, of which foreign direct investment (FDI) serves as one of the major engines, will lift people from poverty, as China has achieved in the past three decades. One of our focus areas in the MNEmerge project is the impact of MNEs on development and poverty reduction through local managerial capabilities building, which is often the bottleneck for industrial development and economic growth in developing countries.

To enhance our knowledge about these issues and for making the world a better place for many we have been entitled to lead a project called "A Framework Model on MNE's Impact on Global Development Challenges" (MNEmerge). This is a collaborative research project funded by the European Union's Seventh Framework Programme for research, technological development and demonstration under Grant Agreement No. 612889. Project aim is to provide a comprehensive framework for understanding the impact of multinational enterprises (MNEs) on United Nations Millennium Development Goals (MDGs) in developing countries using case studies, quantitative data as well as policy analysis. The project has four defined goals:

1. Development of a framework to analyse MNE impact towards socio-economic development
2. Development of a model that describes the relationship between MNE, FDI and the economy
3. Provide case studies and quantitative analysis to support the methodological framework model on health, environment and energy and
4. Analysis of the role of public policies in supporting responsible business practices and the Millennium Development Goals

Fieldwork during the project takes place in three developing countries on three different continents, namely Brazil, Ghana and India. During the project we hope to identify modes of MNE collaboration with societal stakeholders, which permit business sustainability while simultaneously ensuring sustainable development of the society. The outcome and results foreseen are for decision making that can facilitate the implementation project recommendations. The duration of the project is 3 years starting from January 2014.

The consortium that has been assembled for this project has been an active contributor to the multinationals research already before the project and it has extensive expertise on studying societal problems in emerging markets. The research during the project will combine the strengths of the partners and it will be carried out by an international, interdisciplinary team involving researchers from Finnish, British and Dutch institutes as well as Indian, Ghanaian and Brazilian organizations. The issues studied in this project are varied but there is a common thread uniting all of its sub-themes, they all relate to how MNEs manage their activities in one of the following areas: FDI, business functioning, technology and innovation strategies, corporate philanthropy or socially responsible investment. We analyze in detail how these issues can contribute to the attainment of poverty alleviation, food security, health security, environmental security and electrification in developing countries. More information about the project and consortium can be found from the website www.mnemerge.com. ■



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BRE REVIEW

FRANÇOIS PASSANT

Which role for capital markets in promoting sustainability?

Expert article • 1762

For the past ten years or so, the market capitalisation of listed companies in Europe has been oscillating around 10 trillion Euros approximately. How these trillions of Euros are allocated can have a huge impact on supporting the achievement of sustainable development objectives.

Assets managed according to Sustainable and Responsible Investment (SRI) principles have kept growing rapidly over the past decade as evidenced year after year by Eurosif's European SRI Market Study[1]. Yet, vast pools of investments do not incorporate sustainability criteria in a systematic and disciplined way.

In other terms, capital markets today, in aggregate, do not sufficiently reward listed companies that can demonstrate a strong and genuine long-term commitment to sustainable development goals. This leads to a misalignment of capital with sustainable development goals.

This happens at a time of mounting academic evidence that strong corporate sustainability performance leads to superior corporate financial performance over the long-term, both in stock market and accounting terms[2].

A key reason for this misalignment is the excessive short-termism of financial markets and their participants. The materiality of sustainability factors only becomes tangible over a medium to long-term framework. Short-term oriented capital markets tend to discourage sustainability-driven investments whose business case is often multi-annual. This results in sub-optimal capital allocation from a sustainability perspective.

Encouraging capital markets, institutional investors and shareholders to focus greater attention towards long-term performance is a key prerequisite to making capital markets more effective in addressing sustainable development issues. Within this agenda, Environmental, Social and Governance ("ESG") issues have an important role to play.

Encouraging capital markets, institutional investors and shareholders to focus greater attention towards long-term performance is a key prerequisite to making capital markets more effective in addressing sustainable development issues.

Several flaws in the system need to be removed for this to happen and for so-called SRI practices to reach critical mass.

First, incentives are flawed both at a market and firm level. At a market level, investors tend not to incorporate extra-financial matters when valuing companies. A key reason for this is because the social and environmental externalities associated with unsustainable business practices are not reflected in the company's financial statements. The externalities represent the depreciation of natural or social capital and reflect the global cost of eco- and social system maintenance. These costs are not internalised onto corporate balance sheets and there is therefore no incentives for investors to price them in[3].

At a firm level, fund management firms who manage vast pools of capital on behalf of institutional clients such as pension funds, are often evaluated over the short-term. A short-term evaluation framework leads to chasing short-term financial returns which can be detrimental to paying attention to the extra-financial context of investee companies and to building a constructive long-term dialogue with them.

Second, investors often lack relevant, comparable and timely information about the extra-financial context and performance of companies. A recent October 2014 study by Corporate Knights indicates that only 3% of world's 4,609 large listed companies disclosed all of seven basic ESG indicators in 2012[4]. While quarterly earning guidance[5] remains a default practice with companies, encouraging managers and investors to focus on the short-term, investors lack the ability to track the sustainability performance of companies and to understand how their medium to long-term strategy incorporate sustainability considerations. This undermines "integrated thinking", i.e. the ability of an investor to understand holistically the performance and strategy of the company.

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[1] See www.eurosif.org

[2] See for instance the enhanced meta-study by Arababesque Asset Management, From the stockholder to the stakeholder: how sustainability can drive financial performance, 2014; the meta-study by Deutsche Bank Climate Change Advisors, Sustainable Investing: Establishing Long-term Value and Performance, 2012; Serafeim, Ioanis, Cheng, Corporate Social Responsibility and access to finance, Harvard, 2011; Eccles, Ioannou, Serafeim, The Impact of Corporate Sustainability on Organizational Processes and Performance, Harvard, 2011.

[3] See UNEP-fi, Why environmental externalities matter to institutional investors, 2008.

[4] Corporate Knights, Measuring sustainability disclosure : ranking the world's stock exchanges, October 2014.

[5] Earning guidance is "the regular disclosure of point or tight range earnings forecasts for future quarters or the next fiscal year". See KKS Advisors and Generation Foundation, Earning guidance: part of the future or the past ?, January 2014.

Third, investors tend to be shareholders rather than shareowners. Because of their short-term orientation, many investors tend not to engage with management on sustainability issues. While they could influence the conversation in the boardroom by asking questions about how the company takes into account sustainability matters, they often do not engage on this unless an urgent situation requires it.

Policy-makers can therefore use different levers to realign capital markets with sustainable development goals.

First, the power of disclosure should not be underestimated. Legislative action should foster “integrated reporting”.

Integrated reporting is a form of corporate communication that promotes forward-looking thinking. It helps to understand how a company will create short, medium and long-term value by connecting the dots between financial and non-financial value drivers and how these are incorporated into the business strategy.

Parallel disclosure should be required from all participants into the capital markets value chain. This would cover institutional investors, asset managers, investment consultants, proxy advisors and stock exchanges. It would help understand to what extent and how an investor or its advisor, is incorporating extra-financial matters into investment decisions. From that perspective, the current proposal on the revision of the European Shareholder Rights Directive goes in the right direction.

Second, policy-makers should ensure that the legislative frameworks around financial incentives for businesses, investment firms and individuals at these firms are also incorporating long-term and sustainability considerations. Shareholders should also be given a say in how remunerations are designed and aligned on long-term strategic objectives; this will become even more important as the materiality of sustainability matters will become more apparent.

Finally, regulators should consider exploring further how natural capital costs can be internalised. This is probably a complex shift of accounting paradigm that should be thought through with extreme care. However, in the end, it may result in a better alignment of the market economy with sustainable development goals and decrease potential systemic risks in the financial system. ■

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DOLORES GALLARDO-VÁZQUEZ

Does Corporate Social Responsibility motivate competitive success of firms?

Expert article • 1763

Corporate Social Responsibility (CSR) is a much discussed issue in recent years. We can define it as a new strategy in organizations, with the characteristic of doing well in a social manner. It consists of the development of socially responsible actions in three dimensions: economic, social and environmental. The ethical issue is also very important, but in my view, organizations must be ethical by nature and so they should aim for a good performance in this triple sense. At the same time, the main characteristic of CSR is voluntary action. That is to say, companies work by introducing these practices in a voluntary manner. CSR does not imply compulsory action. Companies have to comply with the law in the different indications, but they can do voluntary actions not indicated by law, and in this case we are talking about CSR.

We can ask, why do companies decide to undertake this type of socially responsible actions? Is CSR interesting for companies? Is CSR a source of benefits? Can a socially responsible company be the best in the market? Are stakeholders satisfied with a company that meets their demands and expectations? These questions permit us to state that the practice of CSR is a very interesting way to be competitive.

The answer to all the questions is yes, but now we are going to explain them more precisely. Companies decide to undertake socially responsible actions by nature. That it to say, most of the times, CSR is in the DNA of the entrepreneur. The entreprenuer works this way purely by conviction, believing that it is best for the company and for the other people around him, it is in his essence, in his principles and values. Later, this person is able to transmit this manner of work to all his employees and, this way, the company is imbued with socially responsible principles and values.

CSR is interesting for companies because a socially responsible company obtains a lot of benefits. On the one hand, employees are more satisfied, they have greater motivation, they are more productive, they develop a sense of ownership to the company. CSR increases internal motivation and improves the working environment within the company. Motivating employees has always been a major concern within organizations, i.e. meeting the needs of individuals serving their talent in the business, so they do not fall into inertia. Today, this concern is one of the main preoccupations because in addition to inertia, we must add a generalized state of resignation, sadness and uncertainty, with which many people start each day. In response, companies seek innovative ways of strengthening motivation that today can scarcely be filled via economic incentives, career plans, training plans or new projects to develop. So this motivation comes from CSR actions.

CSR fosters a culture of social awareness by increasing the degree of involvement in the company. The employee involved in an action or CSR program has the opportunity to deepen their knowledge of their internal states of mind, and to analyze its assessment regarding the social awareness generated. Also, control of their moods are improved, their impulses and internal resources. In general, levels of self-control are enhanced, as well as confidence, integrity, adaptability and feeling comfortable and open to new CSR ideas and projects.

CSR has a positive impact on the public image of the company by strengthening brand loyalty. A society in which a lot of brands are living together requires a distinctive personality. Here, everything appreciated and valued by society can be an element of added value. This is the case of CSR that, day by day, should be integrated into company values and that will end up shaping the image of their brands. At the same time, CSR increases company productivity, sales and final results. The implementation of CSR strategies increases sales of a company to make them attractive models to consumers.

CSR strategy encourages employees in training and skills development (leadership, own initiative, creativity, teamwork). Workers are motivated to practice socially responsible management, clearly defined. They like to be part of organizations that respect the individual and invest in their learning. CSR attracts talent for business, the best employees for the best companies, and at the same time it makes that workers feel encouraged to remain in employment.

All of these situations determine a good performance in the company. The happy employee goes to the office with a smile, his job is a stimulus for him, his efforts give good results for the owner. This way, the owner is also happy about the obtained results and tries to meet the employee's demands more and more. This is a circle, owner-employee and employee-owner, which produces benefits for both sides of this relationship.

Furthermore, we can affirm that the positive impact of CSR in competitiveness is specially observed in the areas of human resources, risk management, reputation and innovation. The reputation of a company related to CSR has a growing importance due to the possibilities for personnel in very competitive markets. The European Union, in relation to the competitiveness of companies in Europe (2008), says that the creation of favorable conditions for workers can improve the innovative capacity of companies.

Finally, CSR determines competitive success in firms. A socially responsible company can be the best in the market because it brings together a number of advantages and it is easy for it to work in the best conditions related to competence. As a result, stakeholders related to the activities of the company are very satisfied because their demands and expectations are met by a socially responsible company. ■

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The next wave of innovation is clean, big and profitable

Expert article • 1764

For almost half a century our consumption of natural resources has exceeded what Earth can provide. We would already need 1.5 globes to fit in our ecological footprint, a common measure of our impacts on nature. Most of our footprint consists of burning fossil fuels and the course remains worrying: in 1961 the share of coal in our ecological footprint was 36 % and in 2010 already 53 %. Fortunately, clean technology allows us to do more with less. Sustainable solutions are no longer just an expensive commodity, but an essential driver of a low-carbon economy.

The role of cleantech will be comparable to previous technological revolutions, all of which have completely reshaped the contemporary way of producing, consuming and above all, living. The clean path is extremely attractive. Similarly to steam power, railways, electricity and information technology, the new wave of innovation is likely to enhance all industrial sectors. This time, however, within the Earth's budget.

Cleantech has moved from risky pilot projects to the verge of breakthrough much quicker than anticipated. What is more, technological development has promoted low-carbon society with much greater confidence than international climate negotiations. The driving force behind cleantech is simple: it has become cheaper. The price of solar PV panels for example has plunged 75 % from the end of 2009, and new technologies are increasingly cost-competitive with the conventional systems. Cleantech, however, is much more than just renewable energy: it is also smart grids and energy storages, LEDs, building materials, electric vehicles, waste management and smart water use. They are all about being more efficient, not about sacrificing our modern conveniences. In addition, they all make good business sense. News headlines from only the past few months argue that the clean development shows no signs of slowing down and the transition from fossil fuels is already taking place: 'Record of lowest unsubsidized solar power price shattered in Dubai.' 'Solar and wind to become cheapest energy in Asia.' 'Europe's largest battery power plant opens in Germany.' 'The largest Nordic fund managers to blacklist coal-mining companies.'

Cities and companies will have an essential role in leading the low-carbon transition forward. In 2014 urban population accounted for 54 % of the global population and the share is expected to grow constantly. Cities also produce more than half of global GDP and 70 % of greenhouse gases. In such urban circumstances, the low-carbon pathway is the key to safe, livable and growing communities. However, tackling climate change is not just an opportunity for a growing economy but also a precondition. Scientific community agrees that our actions during the next 15 years will determine whether we will manage to curb the global warming below 2 °C, the internationally agreed-upon risk limit. Having to cope with higher temperatures would be both costly and risky, and the window of opportunity is closing rapidly.

> Cleantech has moved from risky pilot projects to the verge of breakthrough much quicker than anticipated.

The existing approaches of climate policy will not be sufficient to decarbonize our economy. What is needed is a clear and predictable long-term policy framework that supports innovations and promotes low-carbon investments. According to the latest Global Cleantech Innovation Index, several technologically top performing countries - including Finland, Sweden, Japan and Israel - lack resources in scaling up and commercializing their emerging cleantech potential. The low-carbon society requires real effort, and ending up on the clean path is not self-evident even with the greatest of assets. Finland, for instance, is a country covered with forest, largely surrounded by windy shoreline, bathes in sunlight equally to Central Europe and is one of the global leaders in producing cleantech innovations. 90 % of the Finnish population wants more solar and wind energy and 79 % finds the low-carbon society an important goal to pursue. Still, we somehow fail to replace the old technology with new innovations. One major drag on the transition is the insufficient domestic demand. A well-functioning domestic market - a stepping stone to international breakthrough - can only be delivered through determined government actions.

Benefits of low-carbon society are beyond dispute. Apart from energy security, a low-carbon society will be cleaner, safer, quieter, healthier and more affordable than its coal-black predecessor. Bold investments to cut down emissions will deliver significant economic returns with short payback periods, thus being a great use of dollars, euros, yens and yuans. Cost of clean technology keeps sinking like a stone, while fossil alternatives are struggling to remain reasonable on any indicator. But the benefits of abandoning carbon are to be realized quickly. China became the global leader in green investments when the smog left no other alternatives to see. ■

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JANNE SIVONEN

Fairtrade's growth strengthens the corporate social responsibility trend

Expert article • 1765

Demands for greater corporate social responsibility are constantly increasing. Expectations are rising so fast – both in the media and society as a whole – that companies may not even be aware of these changing demands until they see the sensational headlines that criticize their own operations. Nowadays major scandals concerning corporate social responsibility arise from topics that would previously have never made it into the news.

The situation can be challenging to companies even over issues that are often taken for granted, such as respect for basic human rights. With supply chains splintering and lengthening, it is not always clear how far the company's own responsibility extends in its operating environment. In recent years, there have been attempts to define the limits of corporate responsibility in several international processes. However, it is likely that the expectations of the wider society will continue to grow and that these definitions or the laws governing companies' operations will lag behind public opinion. It is therefore also important for the companies themselves to regularly evaluate the limits of their responsibilities and, when required, make changes before problems surface into the public debate.

Social responsibility can be a competitive advantage

If corporate responsibility is narrowly viewed in terms of avoiding mistakes and scandals, it only represents one additional cost factor to a company. A more useful approach is to view it as an opportunity and a way to differentiate the company from the competition. Consumers value responsibility, and companies do best when their products meet the consumers' functional, emotional and ethical needs.

The growing importance of corporate responsibility is also visible in the ever-increasing number of different certification systems and other initiatives being offered to companies for the purpose of demonstrating their ethical compliance. The most well-known and widespread of these initiatives is Fairtrade certification.

Fair trade is based on a partnership between producers and traders, businesses and consumers. A product with the Fairtrade mark has been produced and traded in a way that is socially, economically and environmentally responsible. Fairtrade offers consumers the opportunity to address the imbalance of power in trading relationships, unstable markets and the injustices of conventional trade – an opportunity that millions of consumers have enthusiastically seized around the world.

Currently Fairtrade benefits about 1.5 million small farmers and plantation workers in developing countries. The number of Fairtrade beneficiaries and the benefits they receive have grown steadily from year to year. For most Fairtrade products there is a Fairtrade Minimum Price that aims to cover the costs of sustainable production. In addition to the Minimum Price, the farmers and workers receive a Fairtrade Premium that helps producers to improve the quality of their lives. In 2013, an estimated EUR 86 million of Premium was generated on top of the agreed Fairtrade price. At the consumer end, Fairtrade has become more and more mainstream. For example, in Switzerland the market share of Fairtrade bananas now exceeds 50%, which means that it is now actually more difficult to find non-Fairtrade bananas in Swiss shops than the Fairtrade ones.

The impact of Fairtrade's success has extended well beyond its own direct benefits. Through its example, Fairtrade has shown that an ambitious sense of corporate responsibility can emerge from the margins and be applied into the mainstream of economic life, and that it can also be a profitable business for the companies involved. In this way, Fairtrade and the popular movement that supports it have also influenced the economic sectors where Fairtrade is not active.

Fairtrade is growing despite the recession

In recent years, many industrialised countries have been suffering from the recession. According to the prevailing outlook, the global economy is faced with a long period of slow growth. This is particularly the case in those industrialised countries where consumers pay more attention to the responsibility issues concerning products and production. But will the recession weaken consumer demand for responsibly produced goods?

According to the sales figures for Fairtrade products, there is no need for such concern. In Finland, the sales of Fairtrade products have grown consistently even when the rest of the retail trade has been suffering from a downturn. Finland is not an exception in this regard. In 2013, the global sales of Fairtrade products amounted to EUR 5.5 billion, which was 15% more than in 2012. At the moment, the growth is especially fast in Germany and Sweden.

Fairtrade's success shows that even during a recession it is worthwhile for companies to invest in the responsibility of their products and to compete not only in terms of price and quality, but with the ethicalness of their products. Consumer demand is not a block on the continuation of the corporate social responsibility trend.

Nevertheless, there is a danger that companies react to the general economic situation by lowering their ambitions concerning corporate responsibility issues. At least in Finland, the retail trade has recently engaged in more public debate about prices rather than the ethical quality of the products. Obviously many companies will compete on price but price competition should not lead to a situation where the retail industry starts making choices on behalf of the consumers by reducing the supply of products that are responsibly produced.

In the long term, the rising expectations of consumers and the wider society will ensure that the corporate social responsibility trend will remain strong regardless of economic conjunctures. Fairtrade certification has played a central role in strengthening this trend, and will continue to do so in the future. This is why Fairtrade should continue its growth without compromising on the benefits it brings to the farmers and workers. Fairtrade's core activity has been product certification and labelling. While these will continue to be our most important activity in the future, new approaches are also required from Fairtrade to encourage more companies to join the system and boost the availability of ethical products and raw materials on the market. ■

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XIAOLAN FU & JUN HOU

China's direct investment in Africa and its impact

Expert article • 1766

As the world brings itself onto the path to post crisis recovery, one of the major forces that pushes forward the world's economic growth is to rely on the expansion of South-South economic integration. In particular, the increasingly deepened Sino-Africa strategic partnership and economic engagement have attracted much attention in recent years. In 2009, China surpassed the United States as Africa's largest trade partner and the Sino-Africa trade volume hit a new historical high to USD 221.88 billion in 2014. Coupled with the expansion of trade, this economic integration has also exhibited a positive momentum in terms of foreign direct investment (FDI). China concluded bilateral investment treaties with 32 African countries by the end of 2012 and, according to statistics of the Chinese Ministry of Commerce, the outflow of China's FDI to Africa reached USD 3.5 billion in 2014, making the total stock nearly USD 30 billion with a yearly average growth rate of 46 per cent over the last decade. China has also become Africa's second largest overseas project contracting market, with a total turnover of USD 46 billion project contracting completed in 2014, and more than 2500 Chinese enterprises operate their business in Africa across a broad range of sectors such as agriculture, telecommunications, energy, manufacturing etc.[1]

In recent years, China's presence in Africa has not only confined itself to the activities initiated by the central government, but there has been an increasing trend of economic engagement carried out independently by China's local governments as well as various non-state actors including multinationals, small and medium-sized enterprises (SMEs), and even individual Chinese migrants. While many African countries are now experiencing a period of transformation in both political and economic fields, an increasingly heated debate arises on whether China's presence on the continent provides timely and valuable assistance to this transformation or whether it remains a pure market - and resources - exploiting behavior? More importantly, can the engagement of Chinese multinationals with their host countries' economies serve as the major engine for the forthcoming socioeconomic development in Africa and subsequently lift mass groups of local people from poverty?

[1] Data obtained from Ministry of Commerce of the People's Republic of China (2015). Website: http://www.mofcom.gov.cn/article/i/dxfw/gzzd/201503/20150300910506.shtml

Can the engagement of Chinese multinationals with their host countries' economies serve as the major engine for the forthcoming socioeconomic development in Africa and subsequently lift mass groups of local people from poverty?

Depending on the nature of companies' ownership structure and scale, Chines FDI penetrates into different layers of Africa's economy with diverse strategies. Following the strong policy-oriented guidance, state-owned enterprises mainly invest in strategic sectors such as infrastructure, oil, or ores sectors. The improvement of infrastructure, as one of the fundamental needs in Africa's path to achieve industrialization, directly serves and stimulates economic development. A large number of municipal roads, highways, flyovers, railway, and port projects have been undertaken by Chinese SOEs since the first Forum on China-African Cooperation (FOCAC) held in 2000. For example, the railway restoration project in Angola carried out by Chinese railway Construction Company successfully linked the east with western regions and greatly facilitated the mobility of assets and resources.

Besides physical infrastructure, non-infrastructure investment has grown rapidly in recent years. Large-sized Chinese enterprises from the private sector are mainly involved in non-infrastructure projects such as manufactured goods, telecommunications and wholesale trade. Having already established competitiveness, large-sized Chinese multinationals are eager to undertake cross-border activities to strengthen their international market share. Through linking local partners, their presence is expected to induce positive spillovers that enhance the technological and managerial capability of local industries. A notable example would be the Information and Communication Technology (ICT) industry. The participation of Chinese telecommunication companies (e.g. Huawei Technology) in the construction of ICT facilities, including a fiber optic transmission backbone, telephone, mobile communication, and the internet etc., not only upgraded the service in terms of coverage, quality and price, it also offered a potential technological spillovers to the local actors for upgrading their own strategic capability. As another equally important component of Chinese FDI, SMEs have also created enormous technological learning potential for African enterprises. Some of them are dominant in the light industry and superior technologies mastered by them are acknowledged to be more appropriate for African engineers to learn, compared to the technologies initiated in advanced countries. Other SMEs mainly operate in the retail sector. Products and serviced provided by them are closely linked to people's lives in African localities. Their presence in Africa has played an important role in absorbing local employment, as well as promoting Sino-Africa economic and trade engagement.

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During China's transformation from a labor-intensive economy to a knowledge-based economy, Chinese enterprises and even individual migrants are continuously seeking cross-abroad business potential while Africa has become an important market given the low cost of labor, abundant natural resources, and unexplored markets. The competition brought by the presence of Chinese competitors is likely to force the African companies to improve their strategic capability. Meanwhile, compared to FDI from advanced countries, China's FDI brings relatively more appropriate technologies for the African followers since the technological distance is smaller. Through various channels, local actors are able to access advanced technologies, management practices, and entrepreneurial orientation during the interaction with Chinese multinationals. Our research also suggests a significant job creation effect of Chinese OFDI in host developing across Africa (Fu, 2013). Based on a study of the construction sector (Auffray, 2013), different patterns were observed between Chinese and non-Chinese construction MNEs regarding their composition of employees' nationality. Chinese MNEs tend to bring more skill-embedded staff with them to Africa while the average ratio of foreign employees in Non-Chinese foreign construction companies is substantially lower.[2] A balanced foreign/local employment ratio would create a learning-friendly environment and accommodate knowledge transfer to the local workforce.

Another channel through which multinationals contribute to local socioeconomic development is Corporate Social responsibility (CSR). Since implemented in 2006, the Corporation Law of China has provided the legal foundation of CSR for Chinese enterprises. Many Chinese multinationals have incorporated CSR into their business strategy, as they are the most exposed to international CSR debates and CSR standard compliance out of all types of Chinese businesses. One of the notable examples of this is Huawei Technology. Since its first entry into the African market in 1997, the company has hired over 65% of its total employees from Africa, having provided over 10,000 job opportunities indirectly. Training programmes have also been offered to 12,000 African employees annually across its six training centers across the continent.

Yet technology spillovers and catch-up do not come without conditions; they are determined by multi-dimensional complementarities and host country-specifics such as basic technology capability and supportive institutional settings, all of which are crucial (Fu, 2013). Despite the fact that the technology gap with China is smaller than with advanced economies, followers in Africa are urged to build up certain level of strategic capacity that would empower them to effectively acquire the appropriate technologies from Chinese MNEs. Furthermore, the presence of Chinese FDI may also create immense challenges to the economic development of African countries. Chinese FDI may intensify competition and hamper the development of domestic industries. Without adequate resources and efforts to build up competitiveness, African countries may rather be pushed out from both domestic and global markets. To sustain the rapid growth of China, there have been increased demands for natural resources and the nature resource-oriented FDI may act no different from earlier ones which by and large cast Africa as the supplier of cheap raw materials. In addition, in spite of progressive achievements with regard to the CSR of multinationals, the strategic importance of CSR is not always acknowledged in small-sized Chinese multinationals in Africa. Government and civil society should put more pressure to urge Chinese multinationals to establish necessary mechanisms to fulfill their legal and moral responsibilities. In addition, many serious internal challenges still remain unsolved in Africa such as the lack of transparency, as well as widespread corruption and inequality. There are voices arguing that, given the tendency to highly centralized government, African countries are less likely to be motivated to improve governance.

Although the development of the African continent can be achieved through integrating various resources, every aspect across each level of the development path, such as economic growth, poverty reduction, employment, environment and governance, needs to be controlled by Africa countries. The economic partnership with China should be designed to be inclusive. Country, as well as regional level policies should be developed to take into account people who mostly remain disadvantaged in their livelihoods. ■

[2] The data given was for one project site only, and may not reflect the totality of the company's workforce.

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Sanitation – providing safe toilets through public-private partnerships

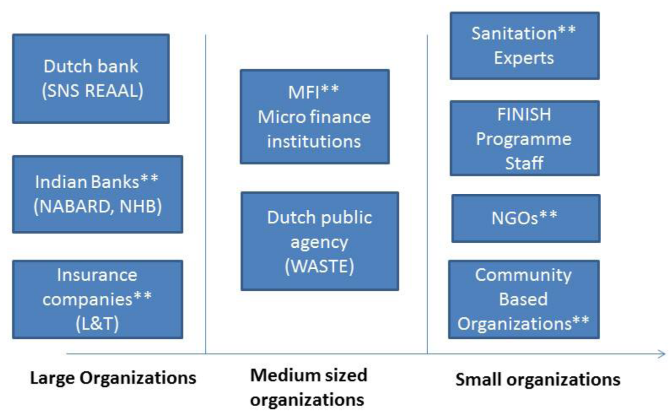
Expert article • 1767

Today 2.5 billion people, including almost one billion children, live without even basic sanitation. Every 20 seconds, a child dies as a result of poor sanitation. That's 1.5 million preventable deaths each year.[1] Lack of access to toilets endangers human (especially women's) dignity and leads the poor to retain themselves, which is particularly unhealthy for pregnant women. Indeed, improvement in sanitation coverage is at the heart of the MDG, as a complete worldwide sanitation coverage would contribute to nearly all MDG goals such as goal 3 (Promote gender equality and empower women), goal 4 (Reduce child mortality), goal 5 (Improve maternal health), goal 6 (Combat HIV/AIDS, Malaria and other diseases) and goal 7 (Ensure environmental sustainability).

The repeated failures of government programs to diffuse toilets among the Base of Income Pyramid (BoP) in developing countries has led to a perceptible shift in public policies to promote sanitation coverage "from a narrow focus on refuse and sewage, to increasingly diffuse and complex phenomena that involve multiple connections between social, economic, political and ecological elements" in order to promote sanitation coverage (Iles, 1996. p.48)[2]. Though it is evident that multi-stakeholder platforms can be of great help to achieve the sanitation target, there is a very clear knowledge gap on the necessary elements for a delivery platform that will ensure that all partners in the network find it in their own interest to participate and invest efforts to make the social mission a success (Ramani, 2008, Ramani et al. 2012, Ramani et al. 2013)[3]. This query is pertinent even for MNEs because they along with European agencies and a variety of international foundations (e.g. Bill Gates Foundation) are becoming more active in helping developing countries attain this MDG goal, though they remain unconvinced that helping in the global sanitation coverage can yield bottom line payoffs for them[4].

In this connection, Programme FINISH (Financial INclusion Improves Sanitation and Health) an European intervention in India provides a good experiment for study. FINISH society was born out of FINISH programme initiated in 2009 by an Indian-Dutch consortium comprising banks, insurance companies, NGOs and academic and government institutions from the two countries. On the European side it is supported by the Government of the Netherlands and the SNS REAAL bank, an organisation that has evolved from various regional savings banks and insurance companies with a long history in Dutch society. Its objective is to support and facilitate construction safe sanitation systems (i.e. toilets with proper treatment of waste produced) to low income communities in rural India through mobilizing funds from end-user households. Under the FINISH programme, micro-credit and financial schemes are targeted to be combined with life and health micro-insurance packages to incentivize household investment towards toilets. Simultaneously, there is also investment in local capacity building in the installation and maintenance of toilets and disposal of toilet waste. The FINISH present consortium mix is as follows:

Figure 1: The FINISH partner consortium



FINISH is a typical example of a new form of an international multi-stakeholder platform that is experimenting with directing capital from investors and lenders in Europe to communities that are financially excluded to mobilize funds from households towards the construction of toilets. Two basic questions that can be examined from the FINISH programme are:

- On the demand side: Which kinds of financial packages can incentivize low income households to mobilize own funds for the construction of safe toilets while being viable, such that the households can pay back their loans without risk of a catastrophic debt burden?
- On the supply side: What are the advantages and constraints imposed by such financial packages for all the supply side stakeholders involved, including the environment?
- On both supply and demand side: How can the *construction* and *usage of safe toilets* be ensured?

[1] http://www.unwater.org/statistics_san.html
[2] Iles, A. T. (1996) Health and the Environment: A Human Rights Agenda for the Future, *Health and Human Rights* 2(2), 46-60.
[3] Ramani, S.V., SadreGhazi S.and Duysters, G. (2012) "On the Diffusion of Toilets as Bottom of Pyramid Innovation: Lessons from Sanitation Entrepreneurs" with *Technological forecasting and social change*. 79, 676–687. Ramani, S.V., Gupta S. and SadreGhazi S., Social Entrepreneurs and Social Enterprises as Business Partners: The Case Study of Rural Sanitation in India. Mimeo (2013). Ramani, S.V. Playing in Invisible Markets: The Market for toilets and empowerment, (2008) in: Charles Cooper Annual Memorial Lecture, Maastricht, The Netherlands, 2008. UNU-MERIT working paper.
[4] http://www.psmag.com/health/facing-the-sanitation-challenge-4734/

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Searching for answers to these questions will help us identify the necessary and sufficient conditions for sanitation delivery platforms to be successful. Strategies for improving sanitation coverage involve more than just building toilets and sanitation drive can be successful only if positive returns are guaranteed to every stakeholder, and furthermore such positive returns are greater than those obtained from non-participation. Thus by studying the three core issues: (i) returns to sanitation provision on the supply side; (ii) returns to sanitation investment on the demand side; (iii) formulation and coordination of a ‘transfer design’, the present project will make a significant contribution to the existing sparse literature and provide concrete guidelines for the attainment of the sanitation target through the participation of MNEs, international agencies, local firms and other partners. It will also yield insight on ways by which MNEs can develop business to business relationships (B2B) with local partners to penetrate BoP markets in other sectors as well, while contributing to the MDG. Standard methods such as archives, meta-analysis of the scientific literatures and interviews with experts and key stakeholders will be mobilized to analyze the sanitation case. ■

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The promise and challenge of collaboration for CSR – corporate-NGO engagement

Expert article • 1768

"Our times demand a new definition of leadership - global leadership. They demand a new constellation of international cooperation - governments, civil society and the private sector, working together for a collective global good"[1]
(Ban Ki-Moon, Secretary General of the United Nations)

The mantra for collaboration is not new, yet it resounds with fervor in conversations about corporate social responsibility (CSR). Civil society actors, especially non-government organizations (NGOs), are often seen as the counterpoint to both the economic power of the corporation and the political power of the State. Although NGOs are recognized as a powerful institutional actor that has a decisive role in helping solve large-scale societal problems, the relationship between corporations and NGOs has historically been marked by distrust and conflict.

Against the backdrop of a new Indian legislation that makes CSR mandatory, this short piece unpacks the pragmatic and ideological tensions and challenges in achieving the promise of corporate-NGO engagement. The Indian government passed the Companies Act in 2013, becoming the first country to make CSR activities mandatory. The Act stipulates that companies with high net worth (Rs.500 crore/ USD 80mn), turnover (Rs.1000 crore/USD160mn) or net profit (Rs.5 crore or more/USD 0.8mn) in any financial year must set up a Corporate Social Responsibility (CSR) Committee, formulate a CSR policy, and spend at least 2 per cent of their net profits for CSR.[2] The contentious clause is being hailed as both an opportunity and a retrograde step. It is estimated that close to 8,000 corporations will fall within the Bill's purview leading to a projected annual CSR spend of Rs. 12,000-15000 crores or approximately USD 1.9bn-2.4bn. The Act went into effect on April 1, 2014, and much anticipation surrounds the implications of the Act and its implementation/evaluation.

An immediate fallout of the legislation has been the rush for corporations and NGOs alike to find common ground and create joint platforms to work together as majority of the qualifying organizations reportedly spend only a fraction of the required amount on CSR. Already, corporations report working with NGOs to achieve CSR outcomes; for example, a survey by Mercer reportedly found that 78 per cent of participating Indian organizations partner with a local, independent NGO while 17% work their own NGOs.[3] However, consider this: there are an estimated 2 million NGOs in India, about one NGO per 600 people although the actual number is expected to be higher.[4] Besides, civil society in India is a diverse group encompassing social movements, collectives, NGOs, and community-based organizations with varying roles and responsibilities.

From a western perspective, NGOs are generally seen as acting in the interest of 'public good' or a social orientation (see Dempsey, 2011).[5] Although the mid 1980s were a turning point when NGOs emerged as important institutional actors in international business (Doh & Teegan, 2002)[6], their influence has been propelled by the globalization of business, declining State power, and the scrutiny of business practices in developing countries (e.g., exploitation of labor, abuse of weak regulatory mechanisms, human rights violations). NGO relationship with business and society has been wide-ranging and diverse, from being one of hostility to cooperation, and variations thereof. Even the language used to describe NGOs does little to challenge the polarization and lack of trust inherent in the relationship. For instance, Kourula and Laasosen (2010)[7] found that range of terminology used in scholarship reflects the state of corporate-NGO relations such that "antimarket environmentalists, pressure groups, and activists" represented adversarial relations, whereas multi-sector studies commonly used such labels as civil society, social movement, and local community, and nonmarket actors.

As said before, the NGO sector is extremely diverse, with substantive differences in ideology, ways of working, partnership orientation, among others. Ählström and Sjöström (2005)[8] argue that there are "partnership" or "independency" organizations. The former, labeled "preservers" tend to cooperate with business ("operate in boardrooms rather than with banderols outside gates") whereas the latter seek alternative, non-collaborative ways of engagement, by being "protesters," "modifiers," and "scrutinizers" (p. 237). Arguably, this

[1] Quote retrieved from http://www.un.org/en/civilsociety/

[2] For a full version of the Companies Act, 2013, see http://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf.

[3] http://articles.economictimes.indiatimes.com/2014-11-16/news/56137152_1_sustainability-activities-csr-activities-corporate-social-responsibility

[4] http://timesofindia.indiatimes.com/india/India-witnessing-NGO-boom-there-is-1-for-every-600-people/articleshow/30871406.cms

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classification is a bit too simplistic, and a more productive understanding may involve viewing NGOs along a continuum. Related to this, NGO tactics or 'politics' of influence have been a contentious issue. In addition to informational and symbolic resources to mobilize support, NGOs may also engage in public naming and shaming, lobbying for social change, protests, and so on. The urgency and legitimacy of NGO demands and their standing among the bigger NGO landscape are additional factors that determine NGO leverage vis-à-vis corporations.

As yet, there is limited scholarship that examines the relational potential and challenges among corporations and NGOs in the Indian context. So diving back into the Indian context, I now present some excerpts from a research project in which I invited perspectives from managers in large Indian and global corporations, as well as select NGOs, to review the state of CSR in India. Given the large number of NGOs, CSR managers noted that the engagement potential was plagued by issues of mistrust. Many acknowledged that NGOs possessed the much-needed ground-level expertise to implement community programs, and their reach within and understanding of local issues is a valuable source of knowledge and feedback. Many corporations in India, and certainly several of the ones I spoke with, report working with NGOs in some measure, as a way to achieve CSR outcomes. Beyond this rosy hue, however, lurk concerns arising from the lack of accountability and the absence of verifiable mechanisms to assess NGO credibility. A few recounted instances of being (nearly) duped by 'fly-by-the-night' NGOs while others recalled the stymied efforts to secure any structured reporting on deliverables promised by the NGO partner. Yet others objected to the tendency of NGOs to ask questions, without proposing alternative solutions.

In addition to speaking with CSR managers, I also invited perspectives from the heads of select NGO groups that were actively engaged in CSR awareness, education, and advocacy. Despite the differences among NGOs in their orientation toward partnerships, and their own identities, a fundamental issue that transcends differences is the question of acquiring and maintaining legitimacy as a social actor in the Indian context. Although the results cannot be generalized to 'all' 2 million NGOs or even a fraction thereof, NGOs in my research are acutely aware of the NGOs as (un)equal partners, as operating on the fringes of business-society relations, and as being bracketed in the dubious classification of belonging to the 'social/development' sector, terms that are elusive and ambiguous. As a result, NGOs are precluded from decisions about CSR. Of the possibilities for engagement (Kourula & Halme, 2008)[9], most organizations limit themselves to sponsoring NGOs, seeking training/volunteer opportunities for employees, or a one-time project consultation. Few actively involve NGOs in the decision making process, treating them as equal partners in developing end-to-end programs, and/or enter into strategic partnerships for sustainable and collective impact. Where the latter opportunities are possible, they are limited to large NGOs with proven credibility and trust.

NGOs are also cognizant of the question that trails sponsorship and funding from corporations, the question of whose agenda NGOs follow. This question is, arguably, linked with larger issues of representation and voice. The report on Indian NGOs previously cited revealed that in financial year 2010-11, about 22,000 NGOs received more than $2 billion in international funds, of which $650 million came from the United States. However, in the absence of transparency about fund allocation, majority of the NGOs that engage with corporations, in whatever measure, still rely on corporate funding, and may be confronted with the paradox of being coopted by the corporations that finance them. Thus, maintaining their independence and neutrality in light of a tricky financial situation poses several challenges.

Globally, the growing importance of corporate reputation and CSR has given NGOs a source of leverage and opportunities to be heard and be noticed. This short paper has only scratched the surface by highlighting some emergent tensions that merit further conversation and dialogue. In India, whether and how the growing rush to establish CSR collaborations will play out remains to be seen indeed. In conclusion, the following quote from one of the NGO directors I spoke with (personal conversation, 2009), resonates with the vision of collaboration and engagement that is placed at the heart of CSR:

We are saying that civil society comes with a lot of understanding—you [business] can't do it alone, you should not do it alone. You must do it because diversity and dissent, which is what democracy is about, can only come to play if you are working in true partnership with a host of organizations where each one brings their skills, talents, and expertise to the table. And I believe there is some hardware with corporates, and some software with civil society, some with the government…and we must come together for this interplay of hardware and software if programmatic responses are to take off. ■

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The Light for All Programme – the Brazilian case of the MNEmerge project

Expert article • 1769

MNEmerge is a collaborative research project funded by the European Union's Seventh Framework Programme. The project seeks to evaluate the impact of multinational enterprises (MNEs) on United Nations Millennium Development Goals (MDGs) in developing countries. In Brazil, the MNEmerge project aims to evaluate the impact of the Light for All public social programme on poverty reduction and sustainable development.

The Light for All Programme was launched in 2003 by Brazilian government with the main goal of bringing electricity to the Brazilian population of rural areas, which in the twenty-first century, still lived far from the electricity development. Those communities not only were living without any comfort, but also did not have the minimal sanitary and life conditions. Bringing electricity to those communities was an action that increased their quality of life, and it has developed a favorable environment for economic growth. The Light for All programme has also been working in social areas, such as education, healthcare and citizenship. All of this and also wellbeing and leisure, expressed in refrigerators to store food, fans to cool off the heat, electric shower to warm water in the winter or the television to entertain and to get informed.

By December of 2012, more than 3 million families had already been beneficiated by the Light for All programme. Most families attended by the programme live in the north and northeast of the country, being those regions the ones with the lowest indices of Human Development Rate (HDR) and highest rates of electric exclusion.

After the arrival of electricity in the communities, the residents reported an improvement in the quality of life given the increase of job opportunities and commerce that appeared in the region, among others aspects. The reflection of the electrification in the income of the residents were relevant: with new opportunities of commerce and the improvements in the agricultural production and livestock, 41.2% of the interviewed in 2013 noticed an increase in their family's income, as shown in Fig. 1. With this increase, many families sought appliances that would give more comfort for the residents or help in their productive activities. The result of that pursuit was an input of 6.7 billion of reais (approximately 2.23 billion of euros) in the Brazilian economy.

A significant part of the appliances bought were used to assist women in the house chores, being the refrigerator the most helpful appliance, according to a research made in 2013. With more help in the house, women began to dedicate more time to their husband and children activities and a part of them even returned to school. Through the productive activities developed by the women, such as craft and sewing, a large number of families had their income complemented, as shown in Fig. 2. The feeling of safety also increased to women, which informed feeling safer staying home alone or walking around the community at night, for instance.

Figure 1 – Income growth after the Light for All programme

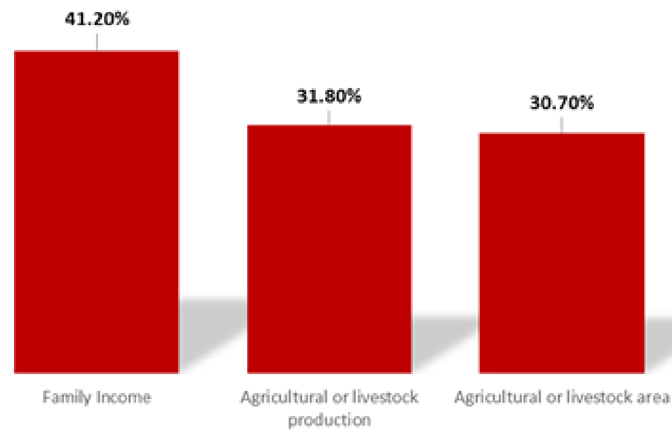
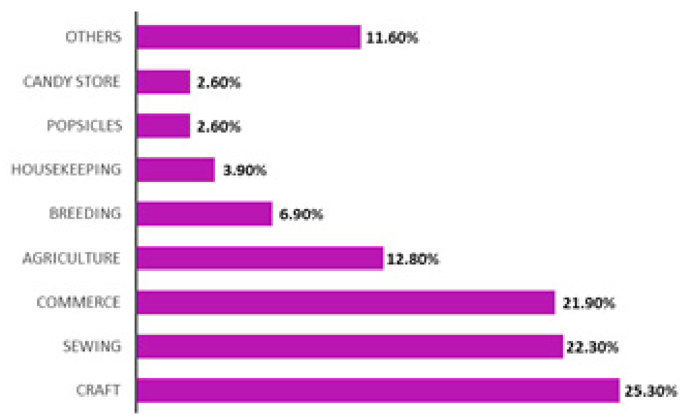


Figure 2 – Women activities after Light for All programme



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After 10 years and 22 billion reais invested (part of that from private companies), more than 15 million of people were beneficiated by the Light for All. Beyond the main objective of providing electricity to isolated communities, the programme has also helped to reduce poverty, encouraged the return to school and pushed social inclusion of large portion of the Brazilian population. The arrival of electricity helped the families to increase their earnings. Consequently, this has provided better quality of life in the rural areas, instigating a migratory movement from the big city centres, already saturated, to the countryside, which now could offer better work opportunities for the young workers and their families.

Finally, the Brazilian case study has the objective of identifying best methodologies for analysing the Light for All programme, which will then help to update and develop new and improved policies and strategies for MNEs, the State as well as civil society organisations. ■

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Corporate Social Responsibility in Russia – the long and winding road in between western influence and Russian tradition

Expert article • 1770

Corporate Social Responsibility (CSR) in Russia has gained in importance since the turn of the millennium primarily for two reasons: the country's progressing, though slow economic liberalization, which shifts responsibilities from the government to the private economy, and a growing global awareness for CSR originating in western countries that also gains hold in emerging economies such as Russia.

This international influence can be demonstrated by the fact that many large Russian companies provide information on their CSR activities in English. In 2012, 90% of the 50 largest corporations disclosed CSR information in English on their homepage, which is clearly targeted at an international audience. Thus, there is an awareness among Russian companies that stakeholders abroad – primarily investors – seek information on their social and environmental, and not only on their financial performance. While international influence can thus be considered a driver of CSR in Russia, its nature is still strongly determined by the country's socialist history and its socio-economic environment.

For more than six decades during the time of the Soviet Union, companies served as extended arms of the government in providing social services to the employees and their families. This pattern was especially strong in so-called 'monotowns', which were constructed around a company site to accommodate workers. There, companies were responsible for the provision of health care, education, sports facilities, and housing. Out of this tradition, citizens have come to perceive business as a social caretaker. When managers tried to reduce these policies after privatization in the 1990s due to cost considerations, substantial protests among the population arose. In consequence, most companies still provide at least some form of social service today. 56% of the firms operate own housing or support local housing, and 73% maintain recreational facilities or support the employees' respective activities, e.g.

Likewise, most of the donations made by Russian companies are also targeted at the local community. The largest number of grants goes to educational purposes and the support of young people, although cultural facilities and healthcare also receive considerable support. Donations not aimed at the local environment often go to country-specific issues, such as support for veterans, orphans, and ethnic minorities. This pattern demonstrates once again that Russian CSR is strongly determined by the country's historic legacy. Aside from donations, many Russian companies also have set up foundations, but more modern forms of corporate citizenship such as corporate volunteering are still in their infancy. The weakness of volunteering reflects the poor development of Russian civil society that is discussed below.

Regarding responsibility in the core business operations, most of the large Russian companies mention measures to ensure workers' health and safety in their CSR reporting, but the willingness to adopt international standards, such as the OSHAS 18001, is low. Likewise, many companies claim environmental protection to be an important area of CSR for them, but the profoundness of the respective measures must be doubted. Again, the number of those who have adopted internationally accepted standards, e.g., ISO 14001, is small. This has several reasons. During communist times, the collective ownership of farms, the "Kol-khozy", did not foster environmental awareness, because it was solely aiming at maximizing yield to fulfill pre-determined production quotas. Even worse, environmental destruction was widely regarded as a sign of industrial progress. Today, Russia is heavily dependent on the exploitation of natural resources like oil and gas, aluminum, iron ore, and timber, which places a large burden on the environment.

Overall, Russian CSR can be described as highly country-specific and strongly grounded in the country's political and economic history. It seems to be primarily motivated by companies' desire to preserve their legitimacy, also versus international stakeholders. Seeking legitimacy is driven by the low confidence of the Russian population in business. This low level of trust is prevalent since the politically steered privatization process in the early 1990s, which was dominated by corruption and fraud, and has created a rather chaotic form of capitalism. Kuznetsov et al. (2009, p. 39) have appropriately described it as "particularly messy and murky affair that traumatised many Russians psychologically and hurt them financially, and was widely regarded as deeply unfair." In consequence, 77% of the respondents in a survey among Russian citizens "felt that the majority of corporate owners in Russia did not rightfully own their assets."

In order to regain this trust that has been lost, strengthening CSR could be a possibility for companies. However, the road going beyond the making of donations to the local community and leading to a more profound integration of social and environmental concerns into the core business will be a long and winding one. As pointed out, the Russian understanding of CSR has been forged for many decades in a way that is fully focused on community investment. Moreover, pressure by external stakeholders to broaden CSR activities is missing. The Russian government has not made any substantial efforts to support or foster CSR. Although President Putin has occasionally called for a stronger implementation in order to increase the attractiveness

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and international competitiveness of Russian business, follow-up activities have not been undertaken. The current turmoil and the desolate situation of the Russian economy will most likely not contribute to a stronger dedication to CSR in the near future.

Likewise, pressure from non-governmental institutions (NGOs), which has been a major driver of CSR in many countries, is lacking. Civil society is traditionally weak in Russia, which is another legacy of the communist past. As Putnam (2000, p. 762) has observed, communism created a civic culture characterized by a “without-me attitude”. Due to the overwhelming role of the totalitarian state, civic engagement was made unnecessary. After the end of the Soviet Union, citizens were concerned with securing their individual economic survival. In an atmosphere of mistrust and uncontrolled competition, solidarity and joint civil activity found no fertile soil. Until today, NGOs as an expression of civil society are underdeveloped. They suffer from a chronic lack of resources and thus have not managed to reach a wider public. Moreover, through legislation, the government has recently cut off NGOs from foreign contributions, additionally weakening their activities. Therefore, it is not surprising that Russian managers do not view pressure from NGOs as a motive for engaging in CSR. Only 7% of them stated in a survey by *The Economist Intelligence Unit* (EIU) that NGO pressure led them to consider CSR development.

Another potential driver of CSR is the media, especially when uncovering unsound business practices through investigative journalism. Russian mass media – despite a pathological suspicion of unethical profit-making on the business side – have mostly ignored CSR issues. Again, due to the strong influence of the government manifested by censorship, there is little room to maneuver for the media. In the survey by the EIU, none of the Russian managers surveyed felt pressured by mass media to deal with CSR.

Moreover, as long as political actors themselves maintain undemocratic processes and control justice, governmental institutions are hardly in a credible position to promote CSR. From the business perspective, however, grievances on the political level would provide fertile ground for Russian companies to distance themselves from these malpractices by demonstrating more social responsibility, and thus regain trust from stakeholders.

Finally, the question on what the specific nature of Russian CSR means for foreign companies doing business there arises. Foreign companies have to be aware that the Russian understanding of CSR primarily consists of taking care of the local community and of employees. Meeting the interests of these stakeholders is an essential expectation among Russians and the basis for making additional policies and initiatives credible. Taking these additional steps and extending CSR activities beyond the traditional patterns, e.g. by addressing customer issues or strengthening environmental protection, can provide a good potential for differentiation from local competitors. This way, competitive advantage can be generated. ■

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Business ethics and CSR in Russia – an outlook of 2015

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During last two decades Russia has being trying to evolve into a new market-based developed economy although this evolution was somewhat contradictory. From one hand, there was a huge progress in the formation of market economy and new business culture based on high standards of moral integrity and stakeholder relation-ship. From the other hand, some elements of our business landscape did not show much progress or even demonstrated some degradation at the very same period.

The most significant progress in business ethics and CSR development was achieved by **large companies**, especially working with mass consumers markets: mo-bile telecommunications, retail trade, consumer goods, banking and insurance, car dealers etc. They have developed very convenient sale service, quality control, and friendly customer support that perfectly fit the best benchmarks of the developed countries, and the reason for this is quite simple – tough competition for the customer. Large B2B companies were also very active in developing good CSR practices although the reason was a bit different – they needed to deal with business partners in US and Europe (e.g. attracting creditor and investors) or even being listed in global stock ex-changes. Both B2C and B2B companies needed to compete for skilled workdforce and have developed modern systems of HR management using good compensation pack-ages, social security, training and development. Many borrowed the best practices of Western corporations like McDonalds or Coca-Cola, who brought to Russia not only their famous brands but also CSR programs. As a result now it is a very common to find a "social responsibility" section at the web-site of any large Russian companies, as well as annual corporate social reports presenting their efforts in improving their relation-ships with stakeholders.

In the domain of **small and medium companies** the progress in CSR is much less obvious. Many of these companies may conduct quite fair business but the concept of CSR or corresponding managerial function is almost always absent from their minds and practices. In many companies CSR functions may be delegated to PR or HR depar-tements which creates unavoidable biases in the outcomes. The main factor in devel-oping an explicit CSR stand of the company is almost always good will and personal attitude of the owner who puts social and human values above pure business motiva-tion. In many cases small and business firms operate in a very hostile economic envi-ronment (competition, taxes, regulations) and just do not have time or money to care about CSR dimension of their business. However, there are many examples of very positive and progressive **social entrepreneuship** activities when the SMEs use innova-tive business models to provide jobs for vulnerable groups of population (like mothers with small babies, senior citizens or handicapped) or solve some social problems. There is special program for social entrepreneurship support provided by Citibank.

There is much progress in academic and educational domain where the majority of universities and business schools introduced special business ethics and CSR courses in their curriculums. The leader in this area is the Graduate School of Management (GSOM) which pioneered in teaching business ethics and CSR fifteen years ago and then lobbied introduction of a compulsory CSR course in the Russian state standard of bachelor management education. The GSOM C**enter for Corporate Social Responsibility**[1] supported by PricewaterhouseCoopers publishes regular reports about the progress social responsibility and corporate philanthropy and social investments in Russian business. However, there is still no good Russian language textbook on Business Ethics or CSR as well as no Russian professional association of academics and practitioners in this area that could coordinate effort in improving teaching and management practices.

However, this obvious progress in business ethics and CSR development is couped with obvious **backwardedness** in some areas. Here is a list of some problems that need to be cured to create a more ethical business environment.

- **Corruption** still remains a very common thing in Russian business. Few government tenders may be expected to be kick-back free and even large foreign companies may be involved in these dealings (e.g. recent scandals with Siemens, HP or IKEA). Russian government announced several wars on coruptions but it seemed to be only declarations because corruption remains an essential element of social contract between the authority and bureacrats.
- Small, medium and even large companies may be still involved into **tax evasion** schemes. There is a rumor that the majority of large car manu-factures in St. Petersburg area still pay some part of their wages "in envelopes".
- Business people remain very **passive** and **voiceless** in political protection of their rights. Theoretically, they could demand for a better government policy (property rights protection, reducing regulations, improving com-petition, etc.) but there is a taboo in opposing the authorities and inde-pendent participation in elections so there is no a strong representative of business interests in political arene.
- Many companies even those who declare adhering to CSR principles may actually **underinvest** peventing in human, safety or ecological risks be-cause of lack of governmental control or CSR standards. In March 2015 the investigation of the 2011 tragedy in the Sea of Okhotsk (the jack-up rig Kolskaya capsized and sank killing 53 people) was finished revealing that the main reason for this accident was violation of safety rules to cut costs.[2]
- Many markets remain **under control of few players** who succeed to avoid competition and keep higher costs and higher prices. A striking example is Russian insurance companies who were lucky to collect revenue of 987 billion rubles but payed only 47,8% of these money as damages keeping the residual 52% as operating profit (an absolutely impossible situation for developed countries).

[1] http://www.gsom.spbu.ru/en/research/csr/
[2] http://en.wikipedia.org/wiki/Kolskaya_(jack-up_rig)

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Polish CSR in brief

Expert article • 1772

The aim of this article is to provide the big picture of responsible business in Poland. The description is based on one hand on the results of the recent survey conducted by KPMG and Responsible Business Forum while giving some clue on activity on administrative/governance level. On the other hand I will focus on the most important initiatives aiming at promotion of responsible business in Poland as well as Responsible Business Forum's experience and practice. I will try to be very succinct as there is no place to describe on two pages the variety of activities concerning corporate responsibility which are currently ongoing in Poland.

Polish business on CSR

According to the recent report (fall 2014) conducted in Poland by KPMG and Responsible Business Forum "Corporate social responsibility: facts versus opinions" there is a growing awareness of corporate social responsibility (CSR) in large and medium-sized companies. Despite company's actual CSR engagement - 96% of the enterprises claim that companies are supposed to respond to ecological and social challenges. Environmental issues are considered as the most important by 52% surveyed and 36% believe it is development of local societies. Positive influence of CSR conception on ultimate financial results of the enterprise is seen by more than three fourths (77%) of the representatives. The improvement of company's image in market as the effect of CSR activities is the most often indicated profit of CSR engagement (52%), whereas more than one-third of all representatives (36%) claim it has a positive influence on the growth of acceptance by company stakeholders. However, 71% of large and medium-sized companies that participated in the survey believe business should report non-financial data, only 48% prepare social/CSR reports and only 4% of non-reporting has such plans in the future. 58% of non-reporting companies see no need for non-financial reporting and 21% indicated the lack of knowledge as a main barrier of doing that.

According to the survey less than half (46%) of large and medium-sized companies currently run CSR activities. The rates among those with foreign capital are much higher, with the highest value (61%) for the companies which possess solely foreign capital. In fact, Polish enterprises which do not have any connection with foreign capital are occasionally (37%) engaged in CSR activities. CSR conception is mainly implemented by large companies (headcount above one thousand) two in three run their activity in accordance with CSR requirements. When it comes to small companies (up to 249 employees) only every fourth is involved in CSR activities.

Considering maturity of CSR conception within companies - only 18 per cent declares long-term and professional commitment. 15% of the companies include CSR in their strategy or prepare CSR reports. Further 13% are beginners – they conduct CSR activities but do nothing more, neither incorporate CSR values into company strategy, nor prepare sustainability reports.

All these findings show that corporate social responsibility in Poland is still in the entry stage and needs support in order to develop and flourish.

CSR on governmental level

There are certain initiatives taken on governmental level for corporate responsibility's sake. The most popular among business and NGOs are these taken by Minister of Economy. Minister of Economy as a promoter of CSR initiates a number of activities in the field of corporate social responsibility.

In May 2012 a report Vision 2050: The new agenda for business in Poland was inaugurated under auspices of Ministry of Economy. That was the effect of an eighteen-month project involving consultation sessions and expert debate with many industry representatives and partner co-operation between Ministry, PwC and Responsible Business Forum. As a result, six key challenges and priority areas were identified in which the business should take a proactive approach in support of socio-economic transformation in Poland:

1. the need to improve social capital
2. the need to strengthen human capital
3. development of infrastructure
4. effective management of natural resources
5. ensuring energy security
6. improving the quality of the state and institutions.

In July 2014 Minister of Economy appointed the Panel on Corporate Social Responsibility. This is a platform of dialogue between public administration, business, social organizations and research centers in the field of social responsibility. Their findings will be considered as recommendations and proposals for the implementation of CSR principles to economic policy and education.

First responsible index in CEE

RESPECT Index (RI) of the Warsaw Stock Exchange includes issuers recognized for their corporate social responsibility efforts, assessed with a special survey. Started in November 2009, it was first such initiative in Central and Eastern Europe.

The RESPECT Index project aims to identify companies operating in adherence to environmental, social and human capital criteria. Additionally, it puts strong emphasis on companies' investment attractiveness , among others, by reporting quality, level of investor relations or information governance. As the liquidity aspect is one of the eligibility criteria, RESPECT Index, represents a substantive point of reference for professional investors. However, while the number of companies listed on RI has been growing since 2009, it is still less than thirty subjects compared to more than one hundred listed on three main indexes – WIG 20, WIG 40 and WIG 80 taken into consideration.

Sustainability Reports Contest

A well-known in Poland, joint initiative of Responsible Business Forum, PwC and SGS (previously CSR Consulting) aiming at popularizing the business responsibility ideals and non-financial reporting is the annual Sustainability/Social Reports Contest. It is addressed to companies and public organizations which publish reports about their activities in those fields. The major awards are given for the best designed report presenting corporate social responsibility. The best reports are chosen by the main jury, the jury of journalists, internet community and The Ministry of Economy. There has been 163 CSR reports included in this contest since it started in 2007, in 2014 there were 31 reports, in 2013 – 32 (probably due to the various cycles of company reports; sometimes they are prepared even once every two or three years). As one can see, the numbers are not huge. It might change due to the new UE Directive on non-financial data and diversity information reporting will be in force since 2017 in Poland. As a matter of fact, those publications cover considerably wider range of non-financial information as compared to that given in the Directive. The most popular standard of presenting reports (28 out of 31 reports in 2014) is the international procedure called Global Reporting Initiative. Hopefully, new UE Directive will encourage companies to non–financial reporting, also by smaller companies, which were represented by only one in the last year contest.

15 years of partnership for CSR in Poland

Responsible Business Forum (RBF) is the oldest, the biggest non-governmental organization in Poland to provide in-depth focus on the concept of corporate social responsibility. It was the first NGO in Poland set as a platform for the mutual collaboration for business eager to act responsibly. This year RBF celebrates its 15th anniversary which is going to be held under the motto 15 years of partnership for CSR in Poland. That fairly reflects nature of CSR in Poland and RBF's achievements. During these years RBF has been acting through the flagship Program of Partnership, collaborating with over one hundred Polish companies. These resulted in publishing numerous analyses and case studies, surveys and reports, being a partner of the most important CSR initiatives held by companies, NGOs and governmental agencies in Poland. As there is no place to mention all of them it is worth to recall the Responsible Company Ranking - the biggest and the most important CSR ranking in Poland organized by Dziennik Gazeta Prawna (Polish daily magazine) RBF and PWC.

RBF created a platform for exchanging practices and knowledge on CSR between managers, administration and nongovernmental organizations. RBF's Good Practices Report published yearly since 2003 documented almost 2000 practices from Polish business.

Since 2012 RBF is the Coordinator of the Diversity Charter in Poland. Polish Charter is one of the most active in Europe capturing more than 100 signatories. Last but not least, RBF is a national partner for CSR Europe and World Business Council for Sustainable Development and GRI organizational stakeholder.

The overall situation of responsible business in Poland in the last fifteen years have been clearly captured by Mirella Panek – Owsiańska – RBF's President of the Board - *For 15 years we have been observing in Poland the development of idea of corporate business responsibility. It can be manifested through the interest of that theme out of idle curiosity but also in building the business strategies based on well-balanced development, which we increasingly could observe in polish companies. Those effects have been caused by the engagement and cooperation between a lot of people, companies and institutions.*

That is why RBF decided to hold an international conference "Business that changes the world, people that change business" as one of the main initiatives in its anniversary year. Eager to share experience and opinions on CSR growth with peers from EEC countries, RBF invites you to Warsaw on 20/21st October this year. ■

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The Finnish CSR policy – aiming to be forerunners

Expert article • 1773

In 2011 Corporate Social Responsibility (CSR) was for the first time included into a Finnish Government programme, when Jyrki Katainen's Government announced as its objective that Finnish companies act as forerunners in CSR matters. Though CSR had been a part of the Government's work since the year 2000, when the first Finnish national contact point for the OECD Guidelines was established, the CSR reference started a new chapter, as CSR work gained a more cross-governmental nature.

From the beginning CSR has been assigned to the Ministry of Employment and the Economy, all though several other Ministries have worked with CSR related topics as well, such as international trade, state ownership steering, diversity, and sustainability. Over the years CSR work had become a bit fragmented and there was a lack of shared knowledge on what projects different governmental branches were working on. Aligning CSR goals was arduous since there was no governmental CSR strategy to fall back on and even more so, no shared perception of what CSR actually is.

Then in 2011 the European Commission published its CSR Communication with a new definition of CSR as the responsibility of enterprises for their impact on society. This new definition was hoped to move CSR discussion beyond the old dichotomy between CSR as voluntary or mandatory, and to get companies to start making impact assessments together with their stakeholders. The Commission also called for member states to prepare national action plans on CSR.

In Finland this call was noted and the Finnish Government published its CSR strategy in November 2012. The Finnish strategy follows Commission's approach to CSR with a mix of actions aimed at private and public sector. On its part the state provides a discussion forum for different parties, along with guidance and support materials. The state is also committed to take CSR into account in its own activities, for example in public procurement and state ownership steering.

State owner sees responsibility as a key success factor

As an owner the state sees responsible conduct both as a possibility to increase productivity and as a vital part of risk management. In 2011 the Government issued a resolution, where non-listed state-owned and state majority-owned companies are required and other state owned companies expected to report on their CSR performance, including business and human rights.

CSR issues are a part of state ownership steering unit's financial and strategic analysis on state owned companies. An essential part of this work is an ongoing dialogue with company management and CSR personnel, where state owner also hopes to receive feedback on its own actions. State owned companies' CSR performance interests politicians as well, which is why it is included into state ownership steering unit's regular overviews for the Finnish Parliament's Commerce Committee.

Public procurement as mean to achieve societal goals

Another area where the state has strived to change the operational environment through its own actions is public procurement. The Ministry of Employment and the Economy has published a hands-on manual on how to set social criteria so that different societal goals – employment of young, long-term unemployed, or immigrants, responsible supply chains, and participation of end-users or customers – can be achieved. The Ministry also hosts a website on responsible supply chains in public procurement, which provides templates for setting social criteria.

According to a recent study, commissioned by the Ministry of Employment and the Economy, social criteria has been used in public procurement, but its usage is limited to larger units who furthermore see that they are still in a piloting phase. What they would need more is upper level commitment and resources to provide guidance for suppliers. Mainstreaming social criteria into public procurement strategies and working instructions would make using it more understandable and approachable. Before this can become reality though, there are still a lot of myths to be busted, mostly related to perceived lack of opportunities provided by the procurement legislation. Another issue lies with resources, which there isn't abundance of anywhere at the moment: setting social criteria would require personnel who can answer supplier's questions and enter into dialogue with them.

What the future will bring?

At the moment Finnish CSR discussion is concentrated around corporate tax contribution and business and human rights. Finland was the fifth country in the world to publish a national action plan on the implementation of the UN Guiding Principles on Business and Human Rights. Even though awareness on human rights has clearly risen among companies, integrating human rights in to corporate management systems seems slow for stakeholders. One reason for this sluggish corporate communication might be the Finnish tendency to build a solid, close to perfect system before telling anyone about it. Nevertheless, the lack of information has frustrated stakeholders and increased demands for new national legislation on business and human rights.

Forecasting the future is always difficult. At present, the Government sees that the best solution for preparing for the unexpected is thorough home work on the current the state of play in CSR together with active dialogue between stakeholders. To implement this, the Government recently published a study, made by the University of Helsinki, on the current Finnish legislation related to business and human rights. The study sheds light on judicial responsibility as well as governance gaps. The Government has also initiated sector specific round tables which aim to find a shared perception on good practice, especially on human rights due diligence, through a dialogue between companies, labour market organisations, NGOs, and public officials. After the parliamentary elections in April, the new Finnish Government will have a broad selection of tried and tested CSR experiences to utilize. ■

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How is Finnish business creating sustainable and inclusive growth?

Expert article • 1774

Finnish companies are investing more and more to ensure the environmental, social and economic sustainability of the operations and products. The reason for this is simple: according to their executives sustainability pays off. They want to create concrete added value, also measurable in monetary terms, to the companies themselves, their customers, the rest of society. The generic term describing the multi-faceted interaction between companies and societies is Corporate Social Responsibility (CSR or CR). According to a recent and wide Finnish executive CR survey of over 200 companies, sustainability is important for the operations for most big and medium sized companies in Finland and the trend continues.[1] This has also been made visible by Finnish companies excelling in growing number of international well-respected rankings like the CDP, Dow Jones Sustainability Index and others.

Sustainability has been a starting point for Finnish business ever since they established their operations decades ago. In a small economy with well-trained workforce, where natural resources are scarce, sustainability has been the lifeline of operations: companies want to act responsibly towards people and the environment, because thriving well-trained employees are more effective and innovative and saving the environment safeguards the cornerstones of e.g. bio-based business over the long term. In particular, demand for energy-efficient, environmentally conscious cleantech solutions is continuously growing around the world, and in this area the competence and innovativeness of Finnish companies is well-reputed. The country also offers numerous forerunners in the areas of openness of societal tax contribution, human rights and other aspects of social responsibility. Operations of some of the biggest players cover also many countries away from Europe. Because of the export- and investment-driven nature of industry, globally free and open trading are seen very important e.g. in the form of US-EU Trade Agreement (TTIP).[2] However there are many concerns from civil society related to conflicts of interest between international companies and domestic policies and local practices e.g. in natural resources and welfare, and the resolution mechanisms related to them.

> In a small economy with well-trained workforce, where natural resources are scarce, sustainability has been the lifeline of operations.

There are two strategic sides of sustainable business, the defensive one is ensuring that there is as little as possible harm done by companies to nature and to employees and wider society. This is often enough especially in energy and heavy emission industries. The more active approach for creating added value for both companies and society is often called Creating Shared Value (CSV) according to professors Michael Porter and Mark Kramer.[3] There are already some Finnish companies whose strategy embraces this approach. Especially in the Forestry industry there are many opportunities: for example climate change risks need systemic thinking and joined efforts and cross-industry collaboration to manage the world's forests so they can absorb and store more CO_2 – while still generating renewable pulp and paper for everyday applications. In global forestry business there are also social issues like involving local communities in forest management operations and ensuring that local populations receive benefits from the forests.

Of course the government has supported and regulated business in this context also. There is strategic vision that Finnish Companies should be global leaders in Sustainability. There are also new laws and guidelines related to government action coordination related to Climate Change, and also related to Bioeconomy, Renewable Energy and Cleantech. Additionally the government has committed to UN and OECD agreements on Business and Human Rights and is in the process of implementing EU Directives on Non-Financial (i.e. sustainability) reporting and Equality and Diversity among Corporate Boardrooms. One particular area of activity has been the stricter sustainability guidelines for State-owned Companies. This covers most areas of corporate responsibility, and especially Human Rights impacts and Global Tax Footprint. This has driven the whole market, including listed and private companies to improved action and disclosure without probably hindering too much industry competitiveness. Additionally Finland is very high in Transparency International's non-corruption country ratings.[4]

Climate change is often regarded as the top issue by the biggest companies, especially those whodse activities are carbon-intensive like energy production. Also those working with e.g. forestry in delicate areas like Asian, African and Latin arid areas and woodlands and also in the Arctic are very sensitive to their footprints. In the future, companies that don't clean up their carbon footprints will feel increasing pressure on their performance and valuation by investor-led groups like Carbon Disclosure Project (CDP).[5]

Other fields of business which have strong links to societal requirements and needs in form of corporate responsibility are of course

[1] http://www.fibsry2.planeetta.com/images/TIEDOSTOT/Sustainability_in_Finland_2014.pdf
[2] ec.europa.eu/trade/policy/in-focus/ttip/
[3] https://hbr.org/2011/01/the-big-idea-creating-shared-value
[4] https://www.transparency.org/cpi2014
[5] https://www.cdp.net/en-US/Pages/HomePage.aspx

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energy and mining. The energy industry is moving towards renewable sources of energy like wind, hydro and bioenergy from non-renewables. According to government statistics, Finland has in 2013 renewable energy representing 31 per cent of total consumption. In the mining area, there are new opportunities especially in Finnish Lapland, but as the nature is extremely fragile, there needs to be coordinated action between the government, companies and local stakeholders. There is a new Network for Sustainable Mining to define the prerequisites for sustainable mining in Finland. It contributes by strengthening co-operation between the extractive industry and its stakeholders as well as developing concrete tools for responsible mining. It provides a platform for sharing information and experiences, and advocates the building and introduction of more responsible practices. Sustainability management tools are created through co-operation.[6]

To highlight the new Finnish approach to doing business, there is the Sustainability in Finland 2014 Yearbook to present 20 examples of sustainable products, services and practices, ranging from small and medium-sized enterprises and start-ups to established companies in different industries.[7] In addition to the case examples, this yearbook features interviews with corporate decision-makers and articles by experts. They provide background information on responsibility themes which are topical and emerging in Finland right now and offer insights from corporate representatives themselves regarding the benefits and opportunities provided by sustainability. ■

[6] www.sitra.fi/en/ekologia/responsible-mining
[7] http://www.fibsry2.planeetta.com/fi/english2/themes/sustainable-finland-2014-yearbook

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Corporate Social Responsibility trends in maritime logistics

Expert article • 1775

Corporate social responsibility in maritime logistics sector

Corporate social responsibility, or CSR, activities are usually not taken into serious con-sideration in companies, whose activities are in a business-to-business level, such as ports and shipping companies. In business-to-business operation, the stakeholder pressure is not necessarily as strong as it is in business-to-consumer operation. Yet, it should be noted that one key element in the competition between the Baltic Sea ports now and in the future will be their environmental status. In addition, the shipping companies have realized that they might gain competitive advantage if they engage in sustainable operations. Nowadays, operators also understand that CSR does not always lead to higher operating costs. Instead, it will most likely reduce the costs and even limit them. CSR should be considered long-run profit maximization.

The benefits gained with CSR are largely dependent on the measures taken, the costs related to them and the measured time period. Benefits can be gained in different fields, such as environment, human resources, customer relations, innovation, reputation and financial performance. For example in the environmental field, measures to reduce en-ergy consumption usually lead to cost savings. Rising energy costs further increase the cost-saving potential of the measures.

The focus in CSR should be on obtaining long term profits, which include not only monetary profits but also social and environmental benefits, which are often challenging to measure and the benefits of which can be seen only after a while.

Focus on environmental issues

A socially responsible operator works actively to integrate economic, social and envi-ronmental concerns in their operations. CSR should take into consideration and find a balance between those three factors. A socially responsible company tries to operate in a manner that causes minimal harm to the environment and tries to reduce its environ-mental impacts as far as possible. Companies are often concerned with the costs of CSR. It is true that engaging in CSR produces financial and time costs. However, the focus in CSR should be on obtaining long term profits, which include not only monetary profits but also social and environmental benefits, which are often challenging to measure and the benefits of which can be seen only after a while.

Environmental concerns practically dominate many political, practical and reputational aspects of maritime logistics. Environmental protection and sustainable development are currently among the greatest challenges faced by our society. In maritime ports and shipping, environmental issues are constantly emerging. Thus, especially in shipping, CSR has tended to focus on environmental issues. In addition, with increasing regula-tions to control port pollution and intensified public debates, ports can no longer avoid environmental concerns either. There is also a pressure to enhance economic efficiency in order to respond to the growing competition. In order to balance the competing needs, the operations must be managed in a sustainable manner, so that both the economic and environmental factors are taken into consideration.

Environmental social responsibility in shipping is motivated mainly by the need to comply with existing and forthcoming regulation, by the aspiration to identify efficiency gains and cost reductions and by the desire to gain competitive advantage. The measures that can be taken in shipping to reduce the environmental impacts of its operations include, for example, clean shipping, speed reduction or slow steaming, new alternative fuels and technologies and waste recovery systems. In addition, the companies can engage in, for example, charity work and thus also act responsibly outside their own operation.

The most significant environmental impacts caused by the ports are related to the con-struction work in the ports, water and road transportation, waste and the introduction of noise and other adverse effects such as dust and odours. Ports can use, for example, the following practices in order to reduce their environmental impacts: full life circle as-sessment in port development and construction, on-shore power supplies, continuous monitoring of emission levels, waste management, renewable energy consumption and alternative fuels. Several of the before mentioned measures incorporate both the envi-ronmental aspects of CSR and the economic aspects in the form of potential for cost-reductions. Yet, in some measures, the social aspects of CSR are also taken into consid-eration. For example on-shore power supplies reduce the need to use the ship's auxiliary engines in ports. Thus, it is possible to minimize the noise and other emissions caused by the auxiliary engines. This is important especially when the harbour is situated in the city centre, close to residential areas. Unfortunately a universal on-shore power supply plug-in system that would suit all types of ships does not yet exist. Hopefully in the future, on-shore power supplies will be further developed, especially for cargo ships.

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Stakeholder relations

The social aspects of CSR take into account the labour of the company. Given the shortage of seafarers, it is wise for shipping companies to emphasise employee issues as a part of their CSR measures. This could attract proficient workers and decrease the employee turnover. In addition, companies that place an emphasis on CSR also tend to have more loyal and committed employees.

Both shipping operations and port operations produce emissions. Yet, ports produce point source pollution, whereas the pollution sources of the shipping companies', that are the ships, are constantly moving. In practice, the pollution from ports has a stronger effect on a single region or community. Thus, the social aspects of CSR and stakeholder relations are probably somewhat more important to ports than to shipping companies. The society is expecting that the ports take responsibility of environmental protection and sustainable development. In addition, ports are often located in a close proximity of urban areas. Ports are sites of environmental pollution that can affect the nearby cities and citizens. These issues have to be taken into consideration in the ports' operations. The ports should also constantly interact with their surrounding communities in order to maintain their social licence to operate.

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Ocean governance and the EU "macro-regional" strategy for the Baltic Sea Region

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In the new millennium, the European Union (EU) has been motivated to assemble a stronger legal framework for cross-border cooperation. This driving force has led to the promulgation of various initiatives including the incorporation of Regulation No. 1082/2006, aptly termed as the European Grouping of Territorial Cooperation (EGTC). EGTC is considered to be the first legal community act that co-relates to regional cooperation, and has inspired the adoption of other crossborder strategies with objectives parallel to its mandate. The Baltic macro-regional strategy, inter alia, has been termed as employing similar EGTC tools to maintain cross-border cooperation commitments. This strategy seeks to achieve one simple goal - to implement an integrated ocean governance in the Baltic Sea Region. The downside is that one has to consider the macro-regional problems that are associated with the strategy and et hoc genus omne i.e. generic strategies addressing territorial cohesion and ocean governance.

"Macro-region" is a term associated with globalization and alludes to an area including territories from a number of different countries or regions associated with one or more common features, addressing common challenges and amalgamating individual regional potentials. The concept originated from an initiative of Baltic countries whereby the spectrum of good governance has been previously exemplified in the status quo EUSBSR and the EU Strategy for the Danube Region, which are the first two macro-regional strategies initiated by the EU. The third macro-regional strategy for the Adriatic and Ionian Region follows a similar trait, which relies on an effective governance model and takes into account the institutional architecture and the administrative structure of those regions. The inevitable question is to what extent can this formalized integrated approach have pragmatic values and whether this framework can achieve the desired cohesive balance.

While the integrated approach as envisioned in the "draft Council conclusions on the governance of macro-regional strategies" is commendable, the challenges associated with using the existing resources, legislation and structures for a successful co-ordination might suggest the integrated approach as being over-ambitious. The macro-regional strategy might question the success of inter-governmental institutions and proceed to override bilateral or multilateral agreements and contingency plans developed among EU and "third countries".

The concept and strategy of the Baltic macro-region has been highlighted in the Communication from the Commission concerning the EU Strategy for the Baltic Sea Region (EUSBSR) and in the following Council Conclusions. The central notion of the EUSBSR is preceded by the recognition that the Baltic Sea Region is a highly heterogenous area in economic, environmental and cultural terms, yet the countries' concerned share common resources. This would imply that an action in a specific area may well have a domino effect on other areas, hence, the rationale for the three objectives of EUSBSR i.e. saving the sea, connecting the region and increasing prosperity. To that effect and to add value to interventions, the EU Council has endorsed an integrated approach to Conclusions on the governance of macro-regional strategies that were published on 21 October, 2014. The integrated approach is, to a greater extent, correlative to the preamble of the United Nations Convention on the Law of the Sea, 1982, which calls for an integrated approach upon consideration that "the problems of ocean space are closely interrelated and need to be considered as a whole". For the Baltic Sea, the macro-regional strategy is an endeavor to integrate all regional efforts analogous to the applied concept of good ocean governance practices that involves all stakeholders. This is largely due to the fact that the 2009 EUSBSR, as endorsed by the European Council, was initiated in light of the environmental deterioration of the Baltic Sea.

The factors that have surfaced as policy dilemmas in the process of implementing a macro-regional strategy are innumerable. The most common one is that the integrated approach will seek to integrate differing agendas and mandates of actors securing good ocean governance in the Baltic. While the rationale of macro-regional strategy concerns the lack of a functional division of labor among these actors, those very actors are already committed to solving the problem, which to date, remains inconclusive. The division of responsibility is currently maintained by a substantial number of intergovernmental, transnational and non-governmental organizations. A functional division calls for a labor hierarchy in the form of a legally binding framework. To what extent can a prescriptive macro-regional strategy embody hard law that can govern the integrated approach remains to be an efficiency challenge. This is coupled with the fact that the intergovernmental format of the Baltic institutions tend to realize an over-reaching agenda, one of which is to involve a majority of stakeholders and can result in frustration. This frustrates the sustainable blue growth agenda for the Baltic Sea and questions the very objective that the macro-regional strategy set to achieve.

Countries and regions involved are suggested to take general strategic leadership and supplement a greater clarity in the organization of work. But "clarity" would also refer to a proper allocation of budget, which the stakeholders have volunteered to manage as a part of the solution. This has been negated by the EU Commission so that the strategy might be more acceptable to the EU Council. This creates a complex web of institutional relations and reveals the vulnerability of the EU Commission in so far as it does not have any designated funding for its co-ordination efforts. To add to the problems of a distinct labor function and budget, the macro-regional strategy for the Baltic is undoubtedly faced with community challenges that require the solidarity of all EU members including strengthening sociatal

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consultative networks across the states of the Baltic Sea. This has not been adequately addressed by the Council in its Conclusions on the governance of macro-regional strategies as published on 9 October, 2014.

The basic logic of the strategy tends to be insufficient and needs to explain to the rest of the EU circle as to why a limited part of the EU needs to be singled out and treated differently. The stakeholders need to be convinced that the macro-regional strategy for the Baltic is an appropriate vehicle for the EU maritime policy in the Baltic. The EU Commission should continue to offer strategic support that ought to be more than just the support of an observer in this integrated approach. The lessons learned from EGTC might shed some light in this context. Then again, individual macro-regions are characterized by features that are unique in terms of challenges and resources. Just as scholars argue that the Arctic region should embody a governance regime different from the Antarctic region, even though both are pristine areas – the Baltic macro-regional strategy should not rely on special regulatory treatment from EU and focus on capacity-building by referring to the existing resources, legislation, administrative structures for the benefit of the Baltic Sea Region. ■

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Concluding remarks on the Special Issue on Corporate Social Responsibility

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Corporate social responsibility (CSR) refers to the responsibility of businesses for their impact on society. Today, CSR is receiving increasing attention and expectations of business responsibility are constantly rising both among consumers and the society as a whole.

Many of the articles highlight the variety of benefits gained with CSR, for instance related to the environment, human resources, customer relations, innovation, reputation and financial performance of companies. They also emphasize the importance of CSR for the competitive success of enterprises. A socially responsible company can obtain various benefits and thus improve its performance. For instance, guaranteeing decent working conditions, proper wages, and possibilities for training and skills development for employees contributes to their motivation, commitment to the company and productivity. CSR also strengthens the reputation of the company as an alluring place to work, thus attracting skilled and motivated people, which again contributes to the competitiveness of the company. Furthermore, integrating CSR into company values can create a positive public image and a distinctive brand for the company, which is important in today's society with abundance of brands and tough competition for customers. In fact, socially responsible and environmentally sustainable business practices are increasingly important for consumers nowadays and often even determine their choices. Moreover, when the natural resources are scarce, environmental sustainability can also be the lifeline for a company. By focusing on energy-efficient and resource-saving solutions, such as cleantech, companies can create added value both for themselves and the society as a whole.

In addition to companies themselves and their customers, other stakeholders contribute to the promotion of CSR. Governments contribute to business responsibility for instance by creating legal frameworks and policies to direct sustainable enterprise development and protect workers' rights, as well as by creating various incentives for socially responsible business operations. Furthermore, the civil society, particularly non-governmental organisations (NGOs), are seen as important actors in promoting the "public good", and pressure from NGOs has been a major driver for CSR in many countries. Media is also an important driver for CSR, in particular investigative journalism uncovering unsound business practices, and nowadays various scandals concerning CSR hit the news rather often. For instance in Russia, the weakness of the civil society and the lack of media independence have slowed down the development of CSR. Moreover, as the importance of CSR is generally accepted among the business community and the investors are often seeking information also on CSR performance of companies, there is an international pressure to adopt these practices. All in all, several articles highlight the importance of the involvement of both public and private stakeholders in the CSR dialogue in order to find sustainable solutions that benefit all parties.

On the other hand, the growing awareness of CSR can also create challenges for companies. When supply chains are long and splintered, it is difficult to define the lines of the company's responsibility. Moreover, engaging in CSR usually requires some resources from the company, both time and money, and companies are often concerned about the costs. The situation is complicated by the fact that the benefits obtained with CSR are not realized instantly and can be difficult to measure. Consequently, the focus in CSR should be in gaining not only financial but also social and environmental profits in the longer timeframe, which can in the future lead to an improved operational environment for companies as well.

As was noted in several articles, companies can create added value for themselves while simultaneously creating value for the society as whole by addressing its needs and challenges. This Baltic Rim Economies Special Issue is published as a part of the MNEmerge (A Framework Model on MNE's Impact on Global Development Challenges in Emerging Markets) project, funded by the EU under the Seventh Framework Programme (FP7). MNEmerge tackles the issue of how multinational enterprises (MNEs) can contribute to poverty reduction in developing countries. The project includes field research in three countries, Brazil, Ghana and India. Some articles in this review, written by the researchers involved with the project, deal with this very issue – the activities of MNEs in developing countries and their contribution to the socio-economic development through foreign direct investment (FDI). For instance, the Chinese MNEs in Africa have invested in the development of physical infrastructure, such as roads, highways, railways and ports. In addition, the presence of Chinese companies has created positive spillovers which have improved the technological and managerial capabilities of the local industries in Africa. On the other hand, the presence of Chinese MNEs can also have negative effects on the economic development of African countries by, for instance, hampering the development of domestic industries. In fact, the MNE collaboration with multiple stakeholders, including local communities, organisations and policy-makers can contribute to the local development more efficiently and simultaneously produce positive returns to every stakeholder. An example of this kind of public-private partnership is the FINISH programme which aims to improve sanitation coverage in India. Furthermore, as another case study of the MNEmerge project, the Light for All public social programme in Brazil has significantly improved the quality of life of the rural people by combining both public and private investments in providing electrification to isolated communities.

In addition to these research activities, the MNEmerge project aims to increase public awareness of the MNE impact on the socio-economic development in developing countries. For more information on the MNEmerge project, please visit the MNEmerge website at www.mnemerge.com. ■

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